

FINANCIAL REPORT
CHANDLER TOWNSHIP
June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Chandler Township	County Charlevoix
Audit Date 6/30/04	Opinion Date 2/2/05	Date Accountant Report Submitted to State: 3/25/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Hill, Schroderus and Co., LLP			
Street Address 923 Spring Street	City Petoskey	State MI	ZIP 49770
Accountant Signature 		Date 3/25/04	

**CHANDLER TOWNSHIP
FINANCIAL REPORT
June 30, 2004**

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February 2, 2005

Independent Auditors' Report

Township Board
Chandler Township, Michigan
Charlevoix County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chandler Township, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Chandler Township Board did not adopt a budget for its special revenue fund. Accounting principles generally accepted in the United States of America require that a budget be adopted. The omission of a fire fund budget results in an incomplete presentation. The omission does not effect the assets, fund balance, revenue or expenditures reported in the fund.

In our opinion, except for the effects, if any, of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Chandler Township, as of June 30, 2004, and the respective budgetary comparison for the General Fund and the Major Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2003.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hill Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

CHANDLER TOWNSHIP
09983 Chandler Hill Road
Boyne Falls, MI 49713

Management's Discussion and Analysis

Overview of the Basic Financial Statements

Chandler Township's basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements. Because this is the first year of implementation of GASB Statement No. 34, prior year numbers are not presented within the Management's Discussion and Analysis. A comparative analysis will be provided in future years when prior year information is available.

Government-wide Financial Statements

The government-wide financial statements report information on all of the Township's non-fiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the Township's assets and liabilities, with the difference reported as *net assets*. All long-term assets are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the Township, which are supported by the Township's general revenues (property taxes, State revenues, etc.).

Fund Financial Statements

The fund financial statements report on the governmental funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented, separate from the governmental funds, due to the fact that these assets do not represent assets of the School. These assets are not presented as part of the Government-wide financial statements.

Chandler Township maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the fire fund which are considered major funds.

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

The table below summarizes the Township's net assets as of June 30, 2004:

Chandler Township June 30, 2004

	Governmental Activities
Assets	
Current and other assets	\$ 118,772
Capital assets - net of accum dep	<u>64,247</u>
Total assets	<u>183,019</u>
Liabilities	
Current liabilities	<u>12,878</u>
Net Assets	
Investment in capital assets	64,247
Restricted	28,139
Unrestricted	<u>77,755</u>
Total net assets	<u>\$ 170,141</u>

At the end of the fiscal year, Chandler Township is able to report positive balances in all three categories of net assets. A large portion of the Township's net assets is its investment in capital assets (land, buildings and equipment). The Township uses these capital assets in providing Township services, consequently these assets are not available for future spending.

The second portion of net assets, restricted net assets, represents fire fund resources that are subject to restrictions on how they may be used. These resources may be used for fire protection and fire equipment only.

The remaining portion of net assets, unrestricted net assets, may be used at the Township's discretion to meet ongoing obligations.

The results for the Township as a whole are reported in the Statement of Activities, which is summarized below:

Chandler Township's Change in Net Assets
Year Ended June 30, 2004

	<u>Governmental Activities</u>
Revenue	
Program revenue:	
Charges for services	\$ 655
General revenue:	
Property taxes	35,399
State shared revenue	31,769
Interest	1,409
Other	2,738
	<u>71,970</u>
Total revenues	
Function/Program Expenses	
General government	41,777
Public safety	11,452
Public works	15,533
Depreciation (unallocated)	8,666
	<u>77,428</u>
Total expenses	
	(5,458)
Change in net assets	
	<u>175,599</u>
Net assets - beginning of year	
	<u>\$ 170,141</u>
Net assets - end of year	

As reported above, the Township recorded \$77,428 of expenses. These expenses were funded primarily by property taxes and state revenue sharing monies. The Township experienced a decrease in net assets primarily due to continued road maintenance and repairs, reductions to state revenue sharing monies and depreciation.

Fund Financial Analysis

As of year end, the governmental funds reported a combined fund balance of approximately \$105,894, which is \$4,292 less than the beginning of the year. The decrease was mainly due to continued road maintenance and repairs and reductions to state revenue sharing monies.

General Fund Budgetary Highlights

Final budgeted revenues remained consistent with original budgeted amounts. Final budgeted expenditures decreased slightly from the original budgeted amounts.

Final actual revenues were slightly below final budgeted amounts. Final actual expenditures were below final budgeted amounts by \$26,934, primarily due to fewer expenditures for fire protection being paid out of the general fund as had been done in the past, cemetery maintenance was less than expected and about \$5,000 was budgeted for contingencies which was not needed.

Capital Assets

At June 30, 2004 the Township had \$162,833 invested in capital assets. The following table summarizes the capital asset activity for the year:

Chandler Township's Capital Asset Activity
Year Ended June 30, 2004

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2004</u>
Land	\$ 12,853	\$ -	\$ -	\$ 12,853
Land improvements	6,836	-	-	6,836
Buildings	75,000	-	-	75,000
Equipment	60,644	7,500	-	68,144
Total capital assets	155,333	7,500	-	162,833
Less accum depreciation	89,920	8,666	-	98,586
Net capital assets	<u>\$ 65,413</u>	<u>\$ (1,166)</u>	<u>\$ -</u>	<u>\$ 64,247</u>

The addition to capital assets was from the purchase of a used fire truck.

Economic Factors

As with most small local units of government, the Township continues to receive less state shared revenue each year while costs of operations, fire protection and road maintenance continue to increase, however, the Township is continuing to adjust to lower state shared revenues and continues to receive property taxes for both operations and fire service and equipment. The Township also must continue to monitor its budget closely.

Financial Contact

The Township's financial statements are designed to present users with a general overview of Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards Township management.

CHANDLER TOWNSHIP
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
<u>Assets</u>	
Current Assets	
Cash	\$ 116,150
Due from other governments	2,619
Due from fiduciary fund	<u>3</u>
Total current assets	<u>118,772</u>
Noncurrent Assets	
Capital assets	162,833
Less: accumulated depreciation	<u>(98,586)</u>
Total noncurrent assets	<u>64,247</u>
Total assets	<u><u>\$ 183,019</u></u>
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts payable	<u>\$ 12,878</u>
Net Assets	
Investment in capital assets	64,247
Restricted for fire service	28,139
Unrestricted	<u>77,755</u>
Total net assets	<u>170,141</u>
Total liabilities and net assets	<u><u>\$ 183,019</u></u>

CHANDLER TOWNSHIP
Statement of Activities
Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net
		Charges for Services	Operating Grants and Contributions	Assets Governmental Activities
Governmental Activities:				
General government	\$ 41,777	\$ 655	\$ -	\$ (41,122)
Public safety	11,452	-	-	(11,452)
Public Works	15,533	-	-	(15,533)
Depreciation (unallocated)	8,666	-	-	(8,666)
Total governmental activities	<u>\$ 77,428</u>	<u>\$ 655</u>	<u>\$ -</u>	<u>(76,773)</u>

General Revenues:

Taxes:

Property taxes, levied for general purposes	20,671
Property taxes, levied for fire operations/equipment	14,728
State shared revenues	31,769
Interest	1,409
Other	<u>2,738</u>

Total general revenues 71,315

Change in net assets (5,458)

Net assets - beginning of year 175,599

Net assets - end of year \$ 170,141

CHANDLER TOWNSHIP
Governmental Funds
Balance Sheet
June 30, 2004

	<u>General</u>	<u>Fire</u>	<u>Total</u>
<u>Assets</u>			
Cash	\$ 88,011	\$ 28,139	\$ 116,150
Due from other governments	2,619	-	2,619
Due from other funds	<u>3</u>	<u>-</u>	<u>3</u>
Total assets	<u><u>\$ 90,633</u></u>	<u><u>\$ 28,139</u></u>	<u><u>\$ 118,772</u></u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	<u>\$ 12,878</u>	<u>\$ -</u>	<u>\$ 12,878</u>
Total liabilities	<u>12,878</u>	<u>-</u>	<u>12,878</u>
Fund Balances:			
Reserved for fire operations/equipment	-	28,139	28,139
Unreserved:			
Undesignated	<u>77,755</u>	<u>-</u>	<u>77,755</u>
Total fund balances	<u>77,755</u>	<u>28,139</u>	<u>105,894</u>
Total liabilities and fund balances	<u><u>\$ 90,633</u></u>	<u><u>\$ 28,139</u></u>	<u><u>\$ 118,772</u></u>

See accompanying notes to financial statements.

CHANDLER TOWNSHIP
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to
the Statement of Net Assets
June 30, 2004

Total Fund Balances - Governmental Funds	\$ 105,894
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds
balance sheet

Cost of capital assets	162,833
Accumulated depreciation	<u>(98,586)</u>

Total net assets - governmental activities	<u>\$ 170,141</u>
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CHANDLER TOWNSHIP
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2004

	<u>General</u>	<u>Fire</u>	<u>Total</u>
Revenues:			
Taxes	\$ 20,671	\$ 14,728	\$ 35,399
State revenue	31,769	-	31,769
Charges for service	655	-	655
Interest	1,409	-	1,409
Other	<u>1,738</u>	<u>1,000</u>	<u>2,738</u>
Total revenues	<u>56,242</u>	<u>15,728</u>	<u>71,970</u>
Expenditures:			
Current:			
General government	41,777	-	41,777
Public safety	3,756	15,196	18,952
Public works	<u>15,533</u>	<u>-</u>	<u>15,533</u>
Total expenditures	<u>61,066</u>	<u>15,196</u>	<u>76,262</u>
Net change in fund balance	(4,824)	532	(4,292)
Fund balances - beginning of year	<u>82,579</u>	<u>27,607</u>	<u>110,186</u>
Fund balances - end of year	<u><u>\$ 77,755</u></u>	<u><u>\$ 28,139</u></u>	<u><u>\$ 105,894</u></u>

CHANDLER TOWNSHIP
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds

\$ (4,292)

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital outlays are reported in governmental funds as expenditures.
However, in the statement of activities, the cost of those assets is
allocated over their estimated useful lives as depreciation expense.
This is the amount by which depreciation exceeds capital outlays
expense in the period.

(1,166)

Change in net assets - governmental activities

\$ (5,458)

CHANDLER TOWNSHIP
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Taxes	\$ 20,000	\$ 20,000	\$ 20,671	\$ 671
State revenue	32,000	32,000	31,769	(231)
Charges for services	700	700	655	(45)
Interest	1,500	1,500	1,409	(91)
Other	5,800	5,800	1,738	(4,062)
Total revenues	60,000	60,000	56,242	(3,758)
Expenditures:				
Current:				
General government:				
Legislative	2,500	2,500	2,440	(60)
Supervisor	3,200	3,200	2,629	(571)
Clerk	5,500	5,700	4,261	(1,439)
Treasurer	8,000	7,500	8,066	566
Assessor	4,500	4,500	3,945	(555)
Building and grounds	12,700	12,700	7,667	(5,033)
Legal	2,500	2,500	1,600	(900)
Cemetery	5,200	5,200	1,138	(4,062)
Unallocated	15,200	15,200	10,031	(5,169)
Total general government	59,300	59,000	41,777	(17,223)
Public Safety:				
Fire protection	7,500	7,500	739	(6,761)
Zoning	5,000	5,000	3,017	(1,983)
Total public safety	12,500	12,500	3,756	(8,744)
Public works:				
Road maintenance and repair	15,000	15,000	14,033	(967)
Transfer station	1,500	1,500	1,500	-
Total public works	16,500	16,500	15,533	(967)
Total expenditures	88,300	88,000	61,066	(26,934)
Net change in fund balance	(28,300)	(28,000)	(4,824)	23,176
Fund balance - July 1, 2003	116,942	116,942	82,579	(34,363)
Fund balance - June 30, 2004	<u>\$ 88,642</u>	<u>\$ 88,942</u>	<u>\$ 77,755</u>	<u>\$ (11,187)</u>

CHANDLER TOWNSHIP
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Fire Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Taxes	\$ -	\$ -	\$ 14,728	\$ 14,728
Other	-	-	1,000	1,000
Total revenues	-	-	15,728	15,728
Expenditures:				
Current:				
Public safety	-	-	15,196	15,196
Net change in fund balance	-	-	532	532
Fund balance - July 1, 2003	-	-	27,607	27,607
Fund balance - June 30, 2004	\$ -	\$ -	\$ 28,139	\$ 28,139

CHANDLER TOWNSHIP
Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2004

Student Activities
Agency Fund

Assets

Cash

\$ 3

Liabilities

Due to other funds

\$ 3

CHANDLER TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township operates under a Board-Supervisor form of government and provides the following services as authorized by its charter: public safety (fire), highways and streets, public improvements, planning and zoning, and general administrative services.

The Township's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The Township's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The following is a summary of the significant policies used by Chandler Township:

REPORTING ENTITY

The accompanying financial statements have been prepared in accordance with criteria established by GASB No. 14, and amended by GASBS No. 39. GASBS 14 states that the primary basis for determining whether outside agencies and organizations should be considered component units of the Township and included in the Township's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The Township has no component units.

BASIC FINANCIAL STATEMENTS – OVERVIEW

The Township's basic financial statements include both government-wide (reporting the Township as a whole) and fund financial statements (reporting the Township's major funds). Both the government-wide and the fund financial statements categorize primary government activities as governmental.

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government. The government-wide focus is more on operational efficiency, the sustainability of the Township as an entity and the change in the Township's net assets resulting from the current year's activities.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS – CONTINUED

In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Township's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Township first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which includes charges for services, operating grants and capital grants.

The program revenues must be directly associated with the function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the Township are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The focus of the fund financial statement is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental type category. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

Governmental Funds

The following is a description of the major governmental funds of the Township:

General Fund – The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS — FUND FINANCIAL STATEMENTS – CONTINUED

Fire Fund – The fire fund is used to account for fire protection services provided by the Township. Primary financing is provided by the Township's property tax levy, which is restricted for fire protection and fire equipment.

Fiduciary Fund

Fiduciary funds are used to account for assets held by the Township in a trustee or agent capacity. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. Agency funds use the accrual basis of accounting, which reports only assets and liabilities. The following is a description of the fiduciary fund maintained by the Township.

Agency Fund – The Agency Fund accounts for the collection and payments of property tax levies.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

The agency fund is accounted for using the full accrual basis of accounting. The Township's agency fund records liabilities when property taxes are received.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND NET ASSETS

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from" other funds on the balance sheet of the fund financial statements and as "internal balances" on the Statement of Net Assets of the government-wide financial statements.

Capital Assets

Capital assets, which include property, buildings and equipment are reported in the applicable governmental activities column in the government-wide financial statements.

Capital assets are recorded by the Township when the initial individual costs are equal to or greater than the following amounts:

<u>Asset Type</u>	<u>Amount</u>
Land	\$ 1
Equipment	1,000
Buildings	1,000
Land Improvements	1,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Land Improvements	20 years
Equipment	5-7 years

Fund Equity

In the fund financial statements, governmental funds report reserved fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for specific purposes.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ACCOUNTING CHANGE

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Effective July 1, 2003, the Township implemented the provisions of GASB No. 34. Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

- A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations.
- Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using full accrual accounting for all of the Township's activities.
- A change in the fund financial statements with a focus on major funds.
- Capital assets in the governmental activities column of the Statement of Net Assets include assets which were previously reported in the General Fixed Asset Account Group.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all operating funds of the Township except for the agency fund. Budgetary control is legally maintained at the fund level.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
2. The budget is legally enacted through passage of an ordinance.
3. Budgets for the General Fund and Fire Fund are adopted at the total fund level. Budgeted amounts are as originally adopted, or as amended by the Township Board during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Township is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. The Township did not incur an excess of expenditures over appropriations for the General fund, however, the Township did not adopt a budget for the Special Revenue Fund as required. Therefore, the Township incurred expenditures in the Fire Fund in excess of amounts appropriated as follows:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Variance Over(under)</u>
Fire	\$0	\$15,196	\$15,196

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 3: **Cash Deposits**

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

At June 30, 2004, the carrying amount of the Township's deposits, including the fiduciary fund, was \$116,153 and the bank balance was \$116,153. Of the above balance in cash, \$98,390 was covered by federal depository insurance. The remaining amount was in a money market sweep account which was uninsured and uncollateralized. The Township may experience significant fluctuations in deposit balances throughout the year

NOTE 4: **PROPERTY TAX**

Property taxes attach as an enforceable lien on property as of December 1. Taxes are levied in December and are payable from December through February 14. The Township bills and collects its own property taxes and also taxes for other governmental units. Collections of the other governmental units' taxes and remittance of them to the units are accounted for in the Agency Fund. Property tax revenues are recognized in the year for which they are levied.

The Township is permitted by state law, subject to State Headlee and Truth in Taxation provisions, to levy taxes up to \$1 per \$1,000 of assessed valuation for general government services.

The tax rates for the year ended June 30, 2004 are as follows:

<u>Purpose</u>	<u>Rate/Assessed Valuation</u>
General government service	\$.9854 per \$1,000
Fire protection and equipment	\$.9854 per \$1,000

The fire protection and equipment levy expired in the current year. A new levy for 1 mill was approved in August 2004 and will expire in fiscal year 2008.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES

The inter-fund balances within the primary government are as follows:

	Interfund Receivable	Interfund Payable
General	\$ 3	\$ -
Fiduciary Fund	-	3
	<u>\$ 3</u>	<u>\$ 3</u>

The inter-fund balances are for interest due on property taxes.

NOTE 6: CAPITAL ASSETS

Capital asset activity of the Township's primary government for the current year was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 12,853	\$ -	\$ -	\$ 12,853
Capital assets being depreciated:				
Buildings	75,000	\$ -	\$ -	75,000
Land improvements	6,836	-	-	6,836
Equipment	60,644	7,500	-	68,144
Subtotal	<u>142,480</u>	<u>7,500</u>	<u>-</u>	<u>149,980</u>
Less accumulated depreciation:				
Buildings	45,000	1,875	-	46,875
Land improvements	6,152	342	-	6,494
Equipment	38,768	6,449	-	45,217
Subtotal	<u>89,920</u>	<u>8,666</u>	<u>-</u>	<u>98,586</u>
Net capital assets being depreciated:	<u>52,560</u>	<u>(1,166)</u>	<u>-</u>	<u>51,394</u>
Governmental activities net capital assets	<u>\$ 65,413</u>	<u>\$ (1,166)</u>	<u>\$ -</u>	<u>\$ 64,247</u>

Depreciation expense was unallocated between function in the statement of net assets.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7: DEFINED CONTRIBUTION PLAN

The Township provides pension benefits for all Township board members, caretaker and the zoning administrator through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed on the plan plus investment earnings. Employees are eligible to participate from the date of employment. Past service, credit is calculated as 3% of current compensation for each year of past service to a maximum of ten years. The plan requires the township to contribute 6% of the employee's base annual salary each year. The employees may also contribute up to 6% of their salary to the plan. Contributions for each employee (and interest allocated to the employee's account) are fully vested immediately.

The Township's required contribution of 6% for fiscal year 2004 was \$2,054, including administration fee of \$185.

NOTE 8: RISK MANAGEMENT

The Township belongs to the Michigan Municipal Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Township pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event.



Hill • Schroderus & Co., LLP

Certified Public Accountants & Consultants

February 2, 2005

Township Board
Chandler Township
Charlevoix County, Michigan

In planning and performing our audit of the financial statements of Chandler Township for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Chandler Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Budgeting – The Township is required to comply with the P.A. 621 of 1978 (i.e. The Uniform Budgeting and Accounting Act). The Township's budgeting was in compliance except as follows:

- A. All governmental funds are required to have a budget, the Township did not adopt a fire fund budget for fiscal year 2004.
- B. The budget should be monitored during the year and amended as appropriate when actual revenues or expenditures vary significantly from budgeted amounts. The amendments should be formally approved by the Township Board and noted in the board minutes.
- C. The budget document should have a column showing the prior year's actual amounts, the current years estimated amounts and the proposed budget for the year it is being adopted.

We would like to express our appreciation for the excellent cooperation we received while performing the audit. If we can be of any assistance, please do not hesitate to contact us.

Hill Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan